

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 EUR-12 EA-06 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 SP-02 AID-05 NSC-05 CIEP-01 TRSE-00

SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-02 H-01

PA-01 PRS-01 /088 R

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EUR/WE:KSHIRLEY

ARA/BC:JKARKASHIAN (SUBS)

TREAS:WMCFADDEN (SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

INFO AMEMBASSY BERN IMMEDIATE IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY MADRID IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY SANTIAGO IMMEDIATE

AMEMBASSY STOCKHOLM IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 051193

E.O. 11652: GDS

TAGS: EFIN, CI

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SUBJECT: CHILE DEBT RESCHEDULING

REF: A) STATE 45567 B) STATE 47776

1. EMBASSIES (AT APPROPRIATE LEVEL) ARE REQUESTED TO MAKE DEMARCHE FRIDAY DIRECTLY TO APPROPRIATE MINISTER (PRONK, IN CASE OF NETHERLANDS) ON CHILE DEBT QUESTION.

YOU MAY DRAW ON REFTEL A AND PARA. 4, REFTEL B TO BE SUPPLEMENTED BY THE FOLLOWING:

2. THE U.S. UNDERSTANDS THAT MINISTER PRONK OF THE NETHERLANDS WILL BE CHAIRING A MEETING ON MARCH 7 WITH REPRESENTATIVES OF SEVERAL NATIONS TO DISCUSS THE QUESTION OF ATTENDANCE AT THE PARIS CLUB MEETING. WE URGE THAT YOUR GOVERNMENTS WITHHOLD MAKING A DECISION ON THIS ISSUE UNTIL SUCH TIME THAT THE LARGER EUROPEAN CREDITORS HAVE DONE SO. THE USG MAKES THIS REQUEST RECOGNIZING THAT THIS IS A HIGHLY CONTROVERSIAL ISSUE FOR ALL GOVERNMENTS. BY WAITING, IT WILL BE EASIER FOR GOVERNMENTS TO AVOID POLITICAL REPERCUSSIONS RESULTING FROM PRECIPITATE ACTIONS, SINCE BURDEN OF DEBT FALLS ON LARGER COUNTRIES.

3. WE FEEL THAT THE RAMIFICATIONS FOR CREDITOR COUNTRIES AND LDC DEBTOR COUNTRIES ALIKE ARE SUCH THAT THEY SHOULD BE CAREFULLY WEIGHED. THE NETHERLANDS, IN PARTICULAR, HAS BEEN ACTIVE IN SUPPORTING DEBT RESCHEDULING FOR LDCS WITH SEVERE ECONOMIC PROBLEMS. CHILE IS CLEARLY ONE OF THESE. POSSIBLE DAMAGE TO THIS PARIS CLUB EXERCISE COULD AFFECT THE ABILITY OF THE PARIS CLUB OR OTHER SIMILAR GROUPS WHICH DEAL WITH DEBT TO FUNCTION EFFECTIVELY. THE CREDITOR CLUB FORMAT HAS BEEN UTILIZED IN INTERNATIONAL FINANCE FOR MANY YEARS AS THE APPROPRIATE MECHANISM FOR HANDLING QUESTIONS OF INDEBTEDNESS AND DEBT RESCHEDULING. WHERE DEBT RENEGOTIATION IS CONSIDERED APPROPRIATE DEVELOPED COUNTRIES USE A MULTILATERAL FRAMEWORK AND INSIST UPON THE PRINCIPLE OF NON-DISCRIMINATION AND EQUALITY AMONG ALL BILATERAL CREDITORS. SINCE 1956, THERE HAVE BEEN APPROXIMATELY 35 INTERNATIONAL AGREEMENTS NEGOTIATING DEBT RELIEF USING THIS PRINCIPLE. IN ALL THIS TIME, CREDITORS AND DEBTORS ALIKE HAVE CONTINUALLY

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STATED THAT THE CREDITOR CLUB CONCERNS ITSELF SOLELY WITH FINANCIAL AND OTHER RELATED ECONOMIC CONSIDERATIONS. THE INTRODUCTION OF POLITICAL CRITERIA INTO THIS FORUM IS NOT ONLY A SERIOUS BREACH OF THIS PROCEDURE, BUT IS ALSO A DANGEROUS PRECEDENT FOR CREDITOR AND DEBTOR COUNTRIES FOR THE FUTURE. IF CREDITORS UNDERMINE THE CREDITOR CLUB MECHANISM, THEY THEREBY PUT INTO JEOPARDY THE CONCEPT OF CREDITORS BEING REPAYED ON A UNIFORM BASIS AND DEBTOR

NATIONS BEING ABLE TO RE-ESTABLISH THEIR CREDITWORTHINESS.

4. IT IS OF PARTICULARLY GREAT CONCERN TO THE U.S. THAT THIS IS OCCURRING DURING A PERIOD OF GLOBAL ECONOMIC CRISIS WHEN MANY LDCS ARE IN SEVERE SITUATIONS. REFUSING TO CONSIDER THE POSSIBILITY OF DEBT RESCHEDULING FOR COUNTRIES IN THE POSITION OF IMMINENT OR ACTUAL DEFAULT ALSO PRESENTS POSSIBLE CONSEQUENCES WHICH IT IS DOUBTFUL THAT THE MEMBERS OF THE PARIS CLUB AND OTHER CREDITORS WOULD -IKE TO FACE. CONCEPT OF CREDITOR CLUB HAS COME UNDER INCREASING ATTACK FROM LDCS IN INTERNATIONAL FORA, WHERE THEY URGE EITHER TOTAL DEBT FORGIVENESS OR VIRTUALLY AUTOMATIC RESCHEDULING IN ALL CASES. CREDITOR NATIONS HAVE MAINTAINED THAT CRDITOR CLUB IS LONG-STANDING

COMPETENT MECHANISM FOR DEALING WITH THESE QUESTIONS, A POSITION WHICH COULD BE DAMAGED IF OTHERS EMULATE UK ACTION. INGERSOLL

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